

ORIGINAL

DIVISION OF CONSUMER ADVOCACY
Department of Commerce and
Consumer Affairs
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PUBLIC UTILITIES
COMMISSION

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FILED

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)
MOLOKAI PUBLIC UTILITIES, INC.)
For Review and Approval of Rate Increases;)
Revised Rate Schedules; and Revised Rules)

DOCKET NO. 2009-0048

DIVISION OF CONSUMER ADVOCACY'S
SUPPLEMENTAL INFORMATION REQUESTS

Pursuant to the Stipulated Regulatory Schedule approved in Order Approving Proposed Procedural Order, as Modified filed on November 6, 2009, the Division of Consumer Advocacy submits its **SUPPLEMENTAL INFORMATION REQUESTS** in the above docketed matter.

DATED: Honolulu, Hawaii, December 7, 2009.

Respectfully submitted,

By Dean Nishina
DEAN NISHINA
Executive Director

DIVISION OF CONSUMER ADVOCACY

DOCKET NO. 2009-0048

MOLOKAI PUBLIC UTILITIES, INC.

SUPPLEMENTAL INFORMATION REQUESTS

INSTRUCTIONS

In order to expedite and facilitate the Consumer Advocate's review and analysis in the above matter, the following is requested:

1. For each response, the Company should identify the person who is responsible for preparing the response as well as the witness who will be responsible for sponsoring the response should there be an evidentiary hearing;
2. Unless otherwise specifically requested, for applicable schedules or workpapers, the Company should provide hard copies of each schedule or workpaper together with one copy of each such schedule or workpaper on electronic media in a mutually agreeable format (e.g., Excel and Quattro Pro, to name two examples); and
3. When an information request makes reference to specific documentation used by the Company to support its response, it is not intended that the response be limited to just the specific document referenced in the request. The response should include any non-privileged memoranda, internal or external studies, assumptions, Company instructions, or any other relevant authoritative source which the Company used.
4. Should the Company claim that any information is not discoverable for any reason:
 - a. State all claimed privileges and objections to disclosure;

- b. State all facts and reasons supporting each claimed privilege and objection;
- c. State under what conditions the Company is willing to permit disclosure to the Consumer Advocate (e.g., protective agreement, review at business offices, etc.); and
- d. If the Company claims that a written document or electronic file is not discoverable, besides complying with subparagraphs 4(a-c), identify each document or electronic file, or portions thereof, that the Company claims are privileged or will not be disclosed, including the title or subject matter, the date, the author(s) and the addressee(s).

DOCKET NO. 2009-0048

MOLOKAI PUBLIC UTILITIES, INC.

SUPPLEMENTAL INFORMATION REQUESTS

CA-SIR-1

Ref: Response to CA-IR-82c.

- a. On page 1, the data for the 5/8" meter indicates that the number of customers decreased from 2,262 as of 6/30/2008 to 590 as of 6/30/2009. Please discuss and explain why the number of customers decreased so significantly.
 1. If the value of 590 represents the cumulative number of customers over four months, please confirm and explain the apparent decrease between the annualized value ($590 \times 3 = 1,770$) and the prior year, 2,262.
- b. On pages 1 and 2, besides the significant decrease in the number of customers in the 5/8" meter, there are also decreases in the 1.0", 1.5", 2.0", and other meters. Please discuss and explain why the number of customers decreased.
- c. On page 1, the data suggests that for the four months ended 10/31/2009, the Company only had 4 customers who used approximately 7,978 thousand gallons. Please confirm. If this data is incorrect, please provide corrected data.

- d. On page 2, please explain why the Company has reflected that it had negative 7,111 customers as of 10/31/2009.

CA-SIR-2

Ref: Response to CA-IR-64.

- a. Please provide a copy of the EPA mandate regarding water quality requirements.
- b. If not already provided elsewhere, please provide a copy of the notices or other documentation received from the EPA or DOH that noted or otherwise signified that water quality needed improvement.
- c. If the plant in service item in question was required due to water quality issues, please explain why the backwash process was affected.
- d. If not already explained elsewhere, please explain why a solution to eliminate the backwash can not be implemented.
- e. Please provide workpapers that identify and support the change in the amount of backwash as a result of the plant.
- f. Please provide reports or other documentation that supports any assertion that the water quality achieved after the plant installation has increased.
- g. In response to CA-IR-65, the Company indicates that only one complaint was received during the period from the last rate proceeding until the instant proceeding. Please explain

why, if only one complaint was received, plant additions to address water quality were necessary.

CA-SIR-3

Ref: Response to CA-IR-68.

- a. The Company indicates that it does not have any document that would support the assertion that no plant currently reflected in the Company's plant in service balance was written off in its entirety for tax purposes. Please confirm or refute that the Company, in reviewing the appropriate consolidated tax returns and supporting workpapers, could verify whether any plant was written off for tax purposes. If this understanding is incorrect, please explain.
- b. *If no document exists to verify, please state the basis of the Company's assertion that, to the best of its knowledge, no item was written off.*
- c. Given the observation regarding the differences in the plant items reflected for book and tax purposes and the Company's recommendation articulated in its response to CA-IR-28, please provide further discussion as to how the Company can assert that it, or its parent company, did not write off any item in its entirety for tax purposes.

CA-SIR-4

Ref: Response to CA-IR-71d.

- a. Please state the basis for determining that there “will be minor savings in maintenance and a small reduction in employee time.” Please provide copies of any supporting documentation.
- b. Please quantify what those minor savings will be and provide copies of the workpapers that support the estimate.
- c. Please quantify the additional operating expenses and provide copies of the workpapers that support the Company’s estimate.

CA-SIR-5

Ref: Response to CA-IR-71d.

- a. If the Company is not anticipating any lateral placements during the test year, please explain why it was necessary to buy the unit in the test year.
- b. Please state and identify the project date when the equipment is anticipated to be used.
- c. Please confirm that lateral placements have been done in the past.
 - 1. If done in the past, identify the projects and provide the labor hours incurred as well as the total expenses itemized by labor and non-labor categories.

2. Assuming that such projects were done in the past and reflected in the historical expenses, please identify the adjustments that should be made to reflect normalized activity that should occur once the equipment has been purchased.

CA-SIR-6

Ref: Response to CA-IR-71g.

- a. If the Company does not install the meters, does the Company anticipate that it would need to require overtime to reflect the labor necessary to conduct both the meter reading and the repairs and maintenance that the Company plans to conduct?
- b. Assuming that the proposed capital investment is included in the test year rate base, please explain why there should be no effort to reduce labor hours related to overtime or other labor charges related to the time previously required to read meters.
 1. If it is the Company's contention that labor hours do not need to be modified, please identify the maintenance projects and provide the maintenance schedules conducted in the past three years and provide the maintenance schedules anticipated to be

used in the next three years and the maintenance projects to be conducted.

2. If the Company cannot demonstrate that the quantity and/or complexity of the maintenance projects are increasing, please explain why there should be no test year normalizing adjustment related to the inclusion of the meters in the test year rate base.

CA-SIR-7

Ref: Response to CA-IR-77.

- a. The Company indicates that over the past five years, it has investigated a number of alternatives. Please provide a copy of that analysis or analyses.
- b. Please explain whether the Company and all of its affiliates (on a consolidated basis) would be able to qualify for a different plan. Please provide a copy of the appropriate analysis.

CA-SIR-8

Ref: Response to CA-IR-80.

If the Company does not have any documentation that supports the Company's assertion regarding whether only the employee's costs were charged to the Company, please identify the basis for the Company's contention that only company-related expenses were paid by the Company.

CA-SIR-9

Ref: Response to CA-IR-38.

The Company's response asserts that manufacturer's guidelines, where applicable, are followed or perform maintenance as needed for those without manufacturer's manuals.

- a. Please elaborate on what type of maintenance is performed on an as-needed basis and the applicable plant or equipment.
- b. Please discuss the type of maintenance that is performed as needed. In other words, does the Company perform maintenance only when something needs to be fixed or does it have other maintenance activities such as preventative maintenance? Please discuss.
- c. The Company indicates that there is no "logged maintenance records for Well 17." In addition, the Company's responses to CA-IR-38 suggest that the Company keeps no logs of any kind to memorialize the maintenance that is done.
 1. Please confirm that this understanding is correct.
 2. Please explain why no log of any kind is maintained.

CA-SIR-10

Ref: Response to CA-IR-39.

- a. Please provide a schedule that reflects the accumulated net operating losses that are available for income tax purposes.

The information should include, but not be limited to the following:

1. The amount available for State income tax purposes;
 2. The amount available for Federal income tax purposes; and
 3. The amount of losses expiring in 2009 – 2014, detailed by year.
- b. If there are net operating losses available for decreasing the calculated income tax expense, but those losses are not recognized for regulatory purposes, the Company will essentially be able to recover an expense that it will not actually incur. Please provide the authoritative basis for this position.

CA-SIR-11

Ref: Response to CA-IR-42.

- a. The Company contends that the hypochlorine is a recurring cost in its response to CA-IR-42b. The Company does not provide the requested support to justify the contention that it is recurring. Please provide documentation that supports the Company's contention.
- b. If not already provided, please provide a schedule of the last five hypochlorine purchases made by the Company. The schedule should provide:

1. the date of purchase;
2. the amount purchased; and
3. the total expense associated with each order.

CA-SIR-12

Ref: Response to CA-IR-43.

- a. Please provide a copy of the analysis that supports the allocation factors developed by the Company and an analysis that demonstrates that the calculated values still reflect reasonable estimates.
- b. If not already explained elsewhere, please explain why the allocation factor for MOSCO is considerably lower than the other two utility companies.

CA-SIR-13

Ref: Response to CA-IR-44.

The information request sought documentation that supported any contention that expenses are recurring. The Company provided a copy of its trial balance. Please identify the relevant pages and items that relate to this expense type.

CA-SIR-14

Ref: Response to CA-IR-45.

- a. Given the described duties and the size of the Company, please explain and justify the time allocated by each position.

- b. If not already discussed elsewhere, please discuss whether the Company has investigated whether outsourcing the various duties might result in a lower cost of service. Please provide copies of requests that support the Company's response.

CA-SIR-15

Ref: Response to CA-IR-46.

- a. Please provide a detailed comparison that would support a finding that the work done by outside sources related to financial and accounting functions are not duplicative of the costs already being allocated to the Company as discussed in the response to CA-IR-45.
- b. If not already explained, if the Company is already receiving allocations from positions such as the controller, COO, etc., please explain why outside services for financial purposes were required.

CA-SIR-16

Ref: Response to CA-IR-52.

- a. Please confirm that there is a Company policy that limits the use of Company paid for cellular service to only utility related purposes. Please provide a copy of that policy.

- b. Please discuss whether the Company has investigated other alternatives to decrease the overall communications expense.
 - 1. If so, please provide the results of that analysis.
 - 2. If not, please explain why not.
- c. The Company's response indicates that there are no allocations. On various pages of the supporting documentation, there is a reference of "Rec cell phone alloc." Please explain that reference.

CA-SIR-17

Ref: Response to CA-IR-24.

- a. Please discuss whether the Company has conducted any analyses to determine that it is more cost effective to procure all small capital additions and most materials and supplies items locally. If so, please provide a copy of that analysis.
- b. If the Company has not done such analysis, please explain why the Company contends that it is not worthwhile to investigate the possibility that it might be able to procure such items less expensively from vendors other than those present on Molokai.

CA-SIR-18

Ref: Response to CA-IR-24.

- a. The Company has reflected certain labor costs in its support for capital items. Please discuss whether the Company has conducted any analyses to determine the normalized level of payroll costs that should be re-classified as capital expenditures, instead of as an expense. If so, please provide a copy of that analysis.
- b. If no such analysis has been conducted, please explain why not.
- c. Please explain why the Company has not reflected any line item to reduce the projected test year expense by labor that should be capitalized.
- d. Please provide copies of records that reflect the amount of MPUI labor and associated costs that have been capitalized in each of the past five years.

CA-SIR-19

Ref: Response to CA-IR-28.

- a. In its attachment, the Company appears to be recommending "that all income tax elements be removed from the cost of service and revenue requirements of both MPU and WOM." Please provide a detailed discussion of what the Company is recommending and how that

recommendation should manifest in the test year revenue requirement determination.

- b. Given the integral role that income taxes and derivative elements, such as accumulated deferred income taxes, play in the determination of revenue requirements, please explain why it would be reasonable to simply "remove" the income tax elements.
 1. Please provide any and all known authoritative cites in this or any other jurisdiction where a commission approved of removing all income tax elements from a rate case.
 2. Regardless of whether any citations can be provided, please discuss whether it is the Company's assertion that removing all income tax elements from the test year would still yield a reasonable basis upon which to base rates. Please provide any and all supporting documentation.

CA-SIR-20

Ref: Response to CA-IR-28.

If not already provided elsewhere, please provide copies of the appropriate income tax exhibits and workpapers that reflect what the Company envisions under its recommendation to remove all income tax elements.

CA-SIR-21

Ref: Response to CA-IR-28.

- a. If the Consumer Advocate understands the Company's proposal, at least some of the effect of the Company's recommendation will be to the customers' detriment. For instance, if there is no accumulated deferred income taxes and Hawaii state capital goods excise tax credit, rate base will be larger than it should have been. Please confirm this understanding.
- b. If it is the Company's contention that such adverse effect would not occur, please provide support for this contention.
- c. If it is the Company's contention that such concerns are not relevant because of the large net operating loss that can be used to reduce income tax expense, please explain how this position is consistent with not recognizing such net operating losses for rate setting purposes.

CA-SIR-22

Ref: Response to CA-IR-28.

- a. The Company indicates that backup detail would either be time consuming to produce or non-existent. Please discuss whether either situation reflects reasonable expectations as it relates to the requirement that a utility company meeting its burden of proof.

- b. Please discuss what measures are being taken to resolve the various deficiencies in the income tax calculation and support.
- c. Please discuss what measures are being taken with respect to record keeping to address these issues.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S SUPPLEMENTAL INFORMATION REQUESTS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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